



CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

September 4, 1998

H.R. 2921 **Copyright Compulsory License Improvement Act of 1998**

As ordered reported by the House Committee on the Judiciary on August 4, 1998

SUMMARY

Pursuant to the Satellite Home Viewer Act of 1988, satellite carriers (companies that use satellite transmissions to provide television signals directly to consumers) pay a monthly royalty fee for each subscriber to the U.S. Copyright Office for the right to retransmit network and superstation signals by satellite to subscribers for private home viewing. The Copyright Office later distributes these fees to those who own copyrights on the material retransmitted by satellite.

H.R. 2921 would allow satellite carriers to retransmit the signals of local television broadcast stations into the local markets of those stations. The bill would also extend the requirement that satellite carriers pay royalty fees to the federal government until December 31, 2004. Finally, the bill would rescind an increase in those fees that went into effect in January and delay that increase for two years.

H.R. 2921 would decrease revenues from royalty collections by \$115 million in 1999, but increase revenues thereafter. CBO estimates that the bill would result in a net increase in revenues of \$692 million over the 1999-2003 period and of \$544 million in the following two years. After review by an arbitration panel, the royalty fees will be paid to copyright owners, along with accrued interest earnings. With higher royalty collections, the payments to copyright holders will also be higher, by an estimated \$196 million over the 1999-2003 period, and by another \$1.2 billion over the following five years. Assuming appropriation of the necessary amounts, CBO estimates that issuance of regulations regarding secondary transmissions would cost the Copyright Office about \$500,000 in 1999. Because H.R. 2921 would affect both revenues and direct spending, it would be subject to pay-as-you-go procedures.

The bill contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA).

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 2921 is shown in the following table. For purposes of this estimate, CBO assumes the bill will be enacted at or near the start of fiscal year 1999. CBO also assumes that payments from the federal government to copyright holders for satellite transmissions would follow historical patterns. The costs of this legislation fall within budget function 370 (commerce and housing credit).

	By Fiscal Year, in Millions of Dollars					
	1998	1999	2000	2001	2002	2003
Receipts and Spending Under Current Law						
Estimated Revenues ^a	235	322	259	183	193	202
Estimated Budget Authority ^b	263	450	286	208	217	225
Estimated Outlays	372	332	295	250	216	205
Proposed Changes						
Estimated Revenues	0	-115	50	214	250	293
Estimated Budget Authority	0	-85	48	219	266	315
Estimated Outlays	0	-10	-44	-36	77	209
Net Increase or Decrease (-) in Surplus	0	-105	94	250	173	84
Receipts and Spending Under H.R. 2921						
Estimated Revenues ^a	235	207	309	397	443	495
Estimated Budget Authority ^b	263	365	334	427	483	540
Estimated Outlays	372	322	251	214	293	414

NOTE: In addition to the effects shown above, H.R. 2921 would increase spending subject to appropriation by about \$500,000 in fiscal year 1999.

a. Includes royalty collections from cable television stations, jukebox licenses, satellite carriers, and digital audio devices.

b. Payments to copyright owners include interest earnings on securities held by the Copyright Office.

BASIS OF ESTIMATE

H.R. 2921 would allow a satellite carrier to make secondary transmissions of local television broadcasts, extend copyright royalty fees, and delay an increase in those fees. All of these provisions affect payments by satellite carriers to the federal government and payments by

the federal government to copyright holders. Assuming enactment of the bill near the beginning of fiscal year 1999, CBO estimates that H.R. 2921 would increase revenues by \$692 million and increase spending by \$196 million over the 1999-2003 period.

Secondary Transmissions

Section 2 of H.R. 2921 would allow satellite carriers to retransmit the signals of local television broadcast stations into the local markets of those stations. Secondary transmissions would make the services provided by satellite carriers much more attractive to people who are not customers of cable television stations. The bill would also eliminate a provision of law that requires customers of cable television service to wait 90 days between ending that service and purchasing satellite service. As a result, CBO expects that the number of subscribers to satellite services would increase more rapidly than under current law. Based on information from the Copyright Office, CBO estimates that under H.R. 2921 the annual change in the volume of satellite services would increase from a projected rate of 10 percent a year to 17 percent a year by 2001. By 2003, this increased rate of growth would result in additional annual revenues of \$64 million, all of which would ultimately be paid out to copyright holders. Because these provisions could increase the incentives for choosing satellite service over cable service, they might lead to a loss in revenues from cable fees. However, based on information from the Copyright Office and the cable and satellite industries, CBO estimates that any such reduction in revenues would not be significant.

Section 2 would result in a small discretionary cost for the Copyright Office to issue the required regulations. CBO estimates that the cost of issuing those regulations—within 180 days after enactment—would be about \$500,000, subject to the availability of appropriated funds.

Delay of Increase in the Copyright Royalty Fee

H.R. 2921 would prohibit the Copyright Office from collecting or awarding copyright royalty fees pursuant to a rule issued on October 28, 1997, by the Librarian of Congress, which increased the royalty fee to \$0.27 per subscriber per month, during calendar years 1998 and 1999. Previously, the royalty fee was \$0.06 per subscriber per month for distant networks and between \$0.14 and \$0.175 per subscriber per month for superstations. The Copyright Office has already received payments at the higher rate from satellite carriers for the first six months of calendar year 1998. Assuming that, under H.R. 2921, the additional revenues from satellite carriers in 1998 would be credited to the revenues due in 1999, CBO estimates that the bill would reduce revenues by \$115 million in fiscal year 1999—about \$30 million

in credits for the excess 1998 payments and \$85 million for the reduction in 1999 payments. Under the bill, the fee imposed on satellite carriers would revert to its current higher level of \$0.27 per subscriber per month on December 31, 1999.

Extension of Copyright Royalty Fees

Under current law, the royalty fees for satellite carriers expire on December 31, 1999. H.R. 2921 would extend royalty fees through December 31, 2004, increasing both revenue from satellite carriers and payments to copyright holders (including interest) during the 2000-2005 period. CBO estimates that revenues from satellite carriers would total \$135 million in 2000 (of which \$91 million would be from the proposed extension of fees). In 2000, the net change in estimated revenues is relatively small because of a lag between changes in fee rates and the collection of such fees. In particular, the first of two annual payments to the Copyright Office in 2000 would be lower than under current law because of the lower rates required by the bill for 1999. Only the second of those two payments would reflect the bill's extension of the authority to collect royalty fees. By 2003, we expect additional revenues to total \$293 million.

Payments to Copyright Holders

S. 2921 would result in additional spending because all revenues are eventually paid to copyright holders with interest. Historical spending patterns indicate that copyright holders may receive the fees and interest up to four years after the Copyright Office has collected the revenues. Thus, CBO estimates a significant lag between changes in revenues and the eventual changes in outlays that stem from copyright fees.

PAY-AS-YOU-GO CONSIDERATIONS

The Balanced Budget and Emergency Deficit Control Act sets up pay-as-you-go procedures for legislation affecting direct spending or receipts. The net changes in outlays and governmental receipts that are subject to pay-as-you-go procedures are shown in the following table. For the purposes of enforcing pay-as-you-go procedures, only the effects in the current year, the budget year, and the succeeding four years are counted.

	By Fiscal Year, in Millions of Dollars										
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Changes in outlays	0	-10	-44	-36	77	209	279	326	318	187	45
Changes in receipts	0	-115	50	214	250	293	343	201	0	0	0

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 2921 would impose no intergovernmental or private-sector mandates as defined in UMRA. However, the delay in the increase in copyright royalty fees would impose costs on the copyright holders, including some state and local government entities, while reducing costs of satellite carriers. Because of this delay, the fees collected in 1998 and 1999 that the Copyright Office would distribute over fiscal years 1999 through 2001 to the industry groups that represent copyright holders would be reduced by \$90 million. The bill would also extend the royalty fees through December 31, 2004.

PREVIOUS CBO ESTIMATES

On July 9, 1998, CBO transmitted an estimate for H.R. 2921, the Multichannel Video Competition and Consumer Protection Act of 1997, as ordered reported by the House Committee on Commerce on June 24, 1998. On March 26, 1998, CBO prepared a cost estimate for S. 1422, the Federal Communications Commission Satellite Carrier Oversight Act, as ordered reported by the Senate Committee on Commerce, Science, and Transportation on March 12, 1998. Differences between those estimates and the estimate of the Judiciary Committee's version of H.R. 2921 reflect differences in the bills and the timing of fee collections. Neither the House Commerce Committee's version of H.R. 2921 nor S. 1422 would extend the copyright payments by satellite carriers beyond December 31, 1999. In addition, the previous estimates assumed that the bills would be enacted before any payments of the increased 1998 fees were made.

The House Commerce Committee's version of H.R. 2921 would postpone the scheduled increase in royalty fees paid by satellite carriers until July 1999—six months sooner than the Judiciary Committee's version. S. 1244 would postpone the scheduled increase in royalty fees paid by satellite carriers until December 31, 1998—one year sooner than the Judiciary Committee's version of H.R. 2921. Consequently, the revenue loss and reduced spending associated with postponement of the royalty fee increase are greater under the Judiciary

Committee's version of H.R. 2921 than they would be under the House Commerce Committee's version of H.R. 2921 or under S. 1422.

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